

## **New CRS Analysis Confirms that President's Social Security Proposals Eliminate Social Security's Guaranteed Benefit**

The nonpartisan Congressional Research Service (CRS) has found that President Bush's proposals for Social Security would mean the end of Social Security's guaranteed benefit. The Bush proposal's benefit cuts start small. However, they eventually become so large that they reduce the guaranteed Social Security benefit to zero. At that point, individuals would have to rely solely on their private accounts.

The CRS analysis looked at the combined effects of the President's private accounts proposal – as described in White House February 2005 statements – and the White House-advocated shift to price-indexing of Social Security benefits, as proposed by President Bush's Social Security commission in a plan the President has described as a “good blueprint.”

The analysis confirms that private accounts are not a modest change to Social Security but eventually eliminate Social Security's guaranteed benefit altogether. CRS found that a person born next year who has average earnings of about \$56,000 over his or her career will not receive any guaranteed Social Security benefit at retirement.

### **Disappearing Benefit**

The CRS analysis found that the President's plan effectively phases out guaranteed benefits. Someone who is 41 today will see their benefit cut by about 30 percent when he or she retires. The cut gradually increases for younger workers.

- o A child born this year who has earnings of about \$16,000 (in 2004 dollars) over his or her career will face a 79 percent benefit cut.
- o If the same child has earnings of about \$35,000, the benefit cut would be larger still – 91 percent.

CRS found that a person born next year who has average earnings of about \$56,000 over his or her career will not receive any guaranteed Social Security benefit at retirement. At higher incomes, the benefit would disappear even earlier.

Eventually, the Bush plan would eliminate the guaranteed benefit for everyone. For lower earners, guaranteed Social Security benefits approach zero but do not totally disappear within the Social Security Administration's 75-year time frame for projections. However, CRS noted that “the factors that led to this result for high earners would also eventually lead to the same result for these groups.”

### **Two benefit cuts combine to eliminate Social Security**

Two benefit cuts in the Bush plan combine to wipe out Social Security's guaranteed benefit.

- o **Changing to price indexing** gradually reduces the guaranteed benefit. The CRS analysis shows this cut growing from 15 percent for someone who is 41 today to 49 percent for someone born in 2012. This cut would deepen in later years and would apply to everyone, regardless of whether or not they open a private account.
- o **The privatization tax** applies to anyone who diverts some of their Social Security contributions to private accounts. It reduces their benefits to reflect the smaller amount they are contributing to Social Security. This cut gradually increases as the private accounts phase-in. The CRS analysis shows that low-earning workers who participate in a private account for their entire careers would lose about 33 percent of their currently scheduled benefit while high earners would lose about 54 percent.